csi wireless

ANNUAL REPORT • 2006

SPECIAL AND ANNUAL GENERAL MEETING

The Special and Annual General Meeting will be held on Wednesday, May 9, 2007 at 3:00 p.m. MST at the Calgary Telus Convention Centre,120 Ninth Avenue SE, Calgary, Alberta.

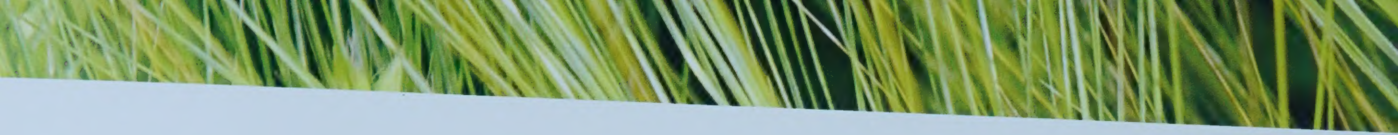
MESSAGE TO SHAREHOLDERS

In 2006, CSI made the strategic decision to focus its resources exclusively on its GPS product lines, where we are a market leader with significant competitive advantages and intellectual property. Accordingly, we sold and exited our wireless businesses. CSI's GPS business operates under the Hemisphere GPS brand which owns the Outback®, Satloc® and Del Norte product names. To reflect our transition to a pure play GPS strategy, CSI will formally change its corporate name to "Hemisphere GPS Inc.". We are the world leader in after-market precision agriculture sales. The Outback product line has quickly come to dominate the market for after-market agricultural guidance.

I often get questions on what attracted me to the Company. I joined CSI in September 2006 after reviewing the Company and recognizing the enormous potential that CSI holds. It was immediately clear to me how strong the Company's GPS market position is. CSI has developed very deep technology strength in its GPS business. The amount of intellectual property is impressive and CSI is already the dominant market leader in an emerging and growing market.

In addition to its outstanding engineering strength, CSI has a fantastic team of employees, strong management and an impressive Board of Directors. Other reasons for me wanting to join CSI included being attracted to the opportunity to lead a high growth technology leader, and the orientation of CSI as an applications company versus strictly a hardware company, which is a significant factor which distinguishes CSI from other GPS companies.

Since joining the Company in mid-September, I've had the pleasure of visiting all of our offices, including a number of major customers and partners, and confirmed our fantastic growth prospects in such markets as Ground Agriculture, Marine and Air. We are executing key initiatives required to maximize our success in pursuit of these opportunities.



2006 was a transition year as we exited our wireless operations and restructured as a pure-play GPS company. Though the impact to our bottom-line was significant, the distractions of the wireless business are behind us. We began 2007 with clean and efficient operations and a focused start as we entered the strongest selling season for agriculture, where we are the dominant market leader.

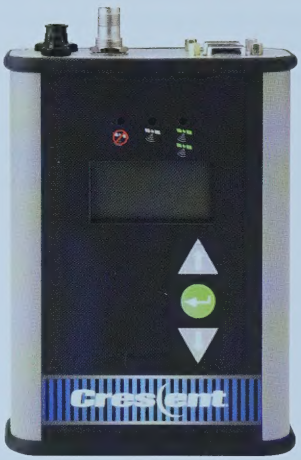
The decision to focus exclusively on GPS was made based on the strengths of our GPS technology and products, our market share leadership and sound industry reputation in our key markets of Ground Agriculture, Air, and Marine navigation. We will leverage these strengths in 2007.

In 2006 Hemisphere GPS reported record revenues reflecting a 40% increase to $45.9 million, up from $32.7 million in 2005. The Company expects to return to profitability in the first quarter of 2007. The majority of Hemisphere's GPS revenues are derived from sales to the North American agriculture market. In 2006, the agriculture revenue segment contributed over 75% of total GPS revenues.

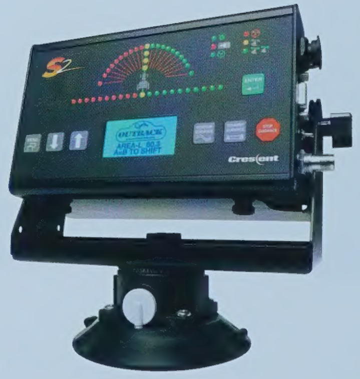
Our precision agriculture line of products helps farms of all sizes increase their productivity and reduce the amount of costly inputs such as fertilizer, pesticides, fuel and the farmer's time. While this industry is only a few years old, it is clearly the future of the agriculture market. We are experiencing robust demand and generating record sales of our industry leading GPS products. Strengthening agriculture commodity prices, and increasing technology adoption in the agriculture sector have created an optimistic outlook for our business.

2007 is shaping up to be the healthiest year the agriculture industry has experienced in a long time. We have seen continued strength for agricultural commodities such as corn and wheat. The continued momentum behind biofuels, particularly ethanol, has stimulated crop prices, which bodes well for farm incomes, which in turn stimulates demand for agriculture equipment.

Crescent® R100



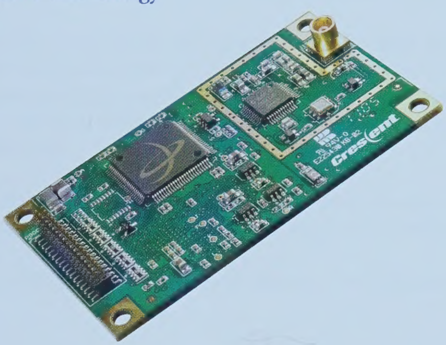
Outback™ S2



The USDA reports that US crop receipts are forecast to reach a new nominal record of US$133.5 billion in 2007, an increase of US$11.9 billion over 2006. This would be the largest year-over-year percentage increase in crop receipts since 1980. The USDA reports that the US net farm income outlook in 2007 is expected to be US$6 billion higher than in 2006 and US$9 billion above the previous 10-year average.

In Europe, farm income is projected to rise by almost one quarter between 2005 and 2013 across the enlarged European Union according to the European Commission directorate general for agriculture. Cereals lead this growth as a result of the expansion of domestic consumption and cereal exports, as well as the growth of demand for biofuels.

Crescent® Technology



We believe the agricultural guidance market will continue to rapidly expand. With increasing accuracy and lower cost, GPS adoption will accelerate on large and small farms, and we are just in the early stages of technology adoption within this market. Our product roadmap for this market will address the dramatic evolution that we will see over the next decade.

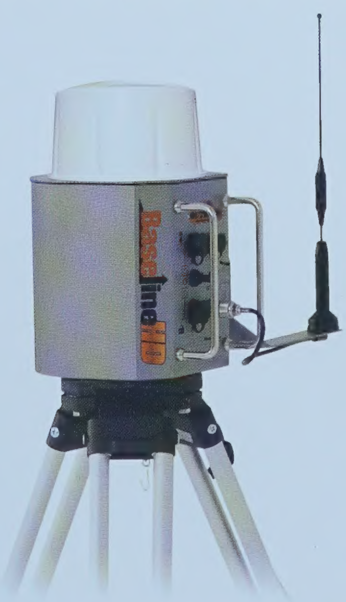
Our immediate focus continues to be oriented across three core strategic objectives:

1. increase market share in existing verticals through product innovations, international traction, and improvements in channel effectiveness;

2. evaluate expansion opportunities into new vertical markets and sub-vertical markets; and

3. streamline operations to new levels of maturity to achieve sustained profitability.

BaseLineHD



These objectives fit well into the strategic decisions made during 2006; and we are on the right track. We have made excellent progress re-focusing CSI into a pure-play GPS company. Overall, we are seeing good prospects in increased technology adoption in the mid market agriculture sector and positive macro agriculture economic trends. We are also very encouraged by some of our growth prospects outside of Ground Agriculture in areas such as Marine, GIS, and Aerial crop dusting.

As an application-based company positioned towards the integration of GPS guidance, positioning, and machine control solutions, we have been successful at executing a very cost-effective technology development strategy. This enables us to compete in the mid market; which is where we believe the significant growth opportunity exists in terms of mass market adoption. With our recently announced Baseline and RTK-based high accuracy systems, we believe that we have unveiled potentially market disruptive offerings.

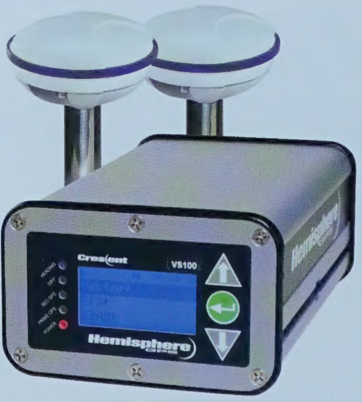
Our Outback BaseLineHD and Cresent Masterlink systems are cost-effective alternatives to expensive dual-frequency systems or subscription based differential networks. These new products provide similiar accuracy as dual-frequency RTK systems but at a fraction of the cost. The innovative product's high performance is due to Hemisphere's exclusive Crescent® GPS technology, including a special receiver module and proprietary chipset. With our BaseLineHD for agriculture, users have a fully portable and robust correction system that they own – giving them control of their own high-definition, repeatable RTK solution. Customers can use it on any machine they choose, or move it to any location.

Perhaps our most exciting and imminent opportunity in Hemisphere GPS guidance for agriculture is with our new auto-steering systems that leverage the success we have already achieved in the precision agriculture market. Our Outback eDrive and GPSteer systems enable operators to drive their tractors and other self-propelled agricultural equipment hands-free, with high accuracy enabling them to reduce costs. With our eDrive installation kits designed to fit over 500 vehicle models, customers can realize a quick return on the investment using it throughout their operation. The customer and market reaction to the initial launch of these products has been very enthusiastic. The fact that we are one of only a handful of companies that have the auto-steering and GPS technology means that we can look forward to continued success and growth in this market.

Hemisphere GPS is also a significant supplier of GPS products to agricultural original equipment manufacturers (OEMs) that install our products on their factory floors. Our OEM customers include CLAAS KgAa mbH – one of the world's largest agricultural machinery manufacturers.

We have in front of us an enormous opportunity within the agriculture market given the still early penetrations of GPS, strong cyclical variables, the independence of the Ag economy from the macro US economy, and strong value proposition of our Outback product line based on reduced costs, increased yield management and reduced driver fatigue.

Crescent® VS100



General macro trends have been extremely favorable in assisting adoption of technology within the agriculture sector. The acceptance of GPS technology as a profit generating investment was confirmed in a recent research report by Doane Marketing Research in partnership with the newly inaugurated PrecisionAg Institute. The report found that more than 80% of GPS users found an increase in profitability in the first season through efficiency gains and cost savings.

Soybean, corn, wheat and cotton growers who used basic precision technology on their farming operations indicated enhanced profitability of between US$5.00 to US$10.00 per acre. The report also surveyed farmers who have not yet adopted precision agriculture technology. The overwhelming reason cited was start-up costs as their principle barrier to using the technology. As the high-value producer, Hemisphere GPS is well positioned to address this market adoption opportunity.

With the increased clarity of our GPS business strategy, we have laid out our long-term plans for becoming the leading integrator of GPS guidance, positioning and machine control solutions applications.

Thank you for your continued support. I look forward to reporting to you on our progress during 2007.

Steven Koles
President & Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2006

The following discussion and analysis is effective as of March 26, 2007 and should be read together with our audited annual consolidated financial statements and accompanying notes. Additional information related to CSI Wireless can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on the internet at www.sedar.com, including the Company's Annual Information Form.

Overview

CSI Wireless Inc. is engaged in the design, manufacture and sale of innovative, cost-effective GPS products for positioning, guidance and machine control applications in agriculture, marine and other markets. The Company carries out these activities under the operating name "Hemisphere GPS" and has announced that it is seeking to rename the Company "Hemisphere GPS Inc." at the annual meeting of its shareholders on May 9, 2007. Accordingly, references throughout this document to "CSI", "CSI Wireless", "Hemisphere GPS", "Hemisphere" or the "Company" all refer to CSI Wireless Inc. and its subsidiaries.

Hemisphere GPS has three primary product lines: Ground Agriculture products, Aerial Agriculture products and Precision products for GIS and marine markets. On January 19, 2006, the Company announced that it had completed the acquisition of the business assets of Del Norte Technologies Inc., which broadened Hemisphere's Aerial Agriculture product line and technology base.

Prior to 2006, the Company also carried out activities through its Wireless Business Unit, which included two primary product lines: Fixed Wireless Telephones and Telematics products. In early 2006, the Company announced its plans to exit the activities associated with its Wireless Business Unit. During 2006, the Company sold the Fixed Wireless Telephone product line and the Asset-Link Telematics product line. In addition, the Company announced an agreement to sell its Location Tag Telematics product line, however, that transaction has not yet closed. The activities associated with the Wireless Business Unit have been treated as discontinued operations in the financial statements for 2006 as more fully described later in this Management Discussion and Analysis ("MD&A").

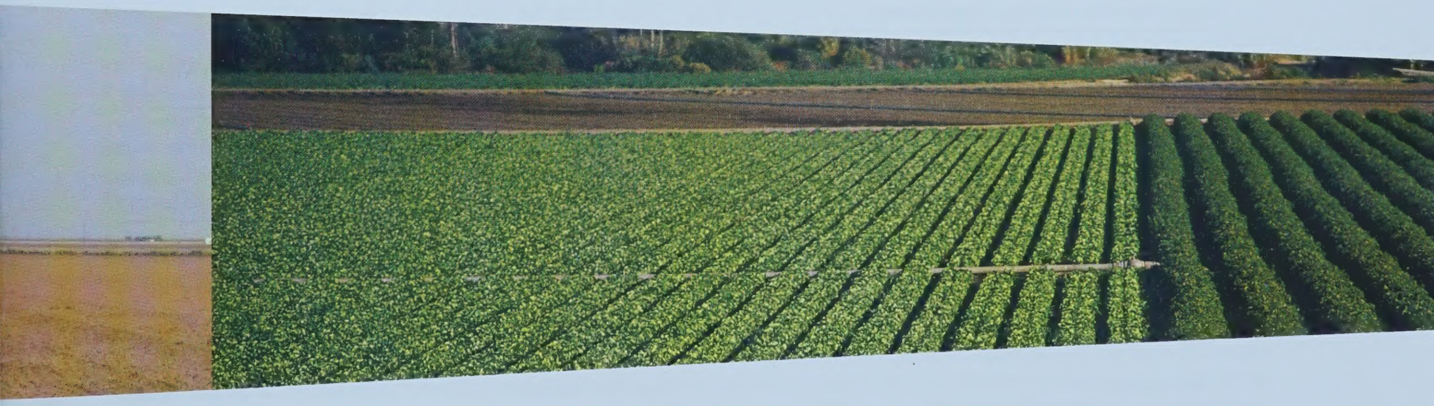
The information in the Management's Discussion and Analysis (MD&A) contains certain forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. These statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, including: the impact of general economic conditions; industry conditions; changes in laws and regulations and changes in how they are interpreted and enforced; fluctuations in foreign exchange and interest rates; stock market volatility and market valuations; competition for, among other things, capital and skilled personnel; incorrect assessments of the value of acquisitions; stock market volatility and market valuations and changes in income tax laws. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits the Company will derive from them. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Economic and Market Trends

A large portion of the Company's products are utilized in agricultural markets. Conditions in the agricultural markets have generally been positive in 2006 and early 2007. The US Department of Agriculture ("USDA") reports that average prices received by US farmers in December 2006 for corn and wheat had increased by 50% and 28% respectively compared to the average prices received in January 2006. Increasing prices are believed to have been impacted by lower inventory levels and increasing global demand, in part arising from growing demand for ethanol and other grain-based biofuels. As a result of higher prices, the USDA has forecast 2007 "net farm income" to be US$66.6 billion, up 10% from 2006 and 16% higher than the 10 year average.

Agriculture markets in 2006 were impacted by dry weather conditions in certain parts of North America, Australia, Brazil, Africa and China. In addition, higher input costs, particularly relating to fuel and fertilizer, continued to impact these markets during 2006.

CSI's revenues and income have been negatively impacted by the strengthening of the Canadian dollar relative to the US dollar since 2003. The average foreign exchange rate for 2006 declined by 6% compared to the average rate for 2005. Similarly the average foreign exchange rate declined relative to the prior year by 7% in each of 2005 and 2004 and by 11% in 2003. As a result of these movements, the Company's Canadian dollar revenues, which are substantially all denominated in US dollars, were lower than they would have been had the foreign exchange rate not changed. Further, because a component of the Company's costs are denominated in Canadian dollars, the loss realized in 2006 was larger than it would have been had foreign exchange rates not changed.



Results of Operations

(000's)		Year Ended December 31 2006		2005		2004
				(audited)		
Sales	$	45,908	$	32,677	$	32,003
Gross margin		18,517		13,184		16,410
		40.3%		40.3%		51.3%
Expenses						
Research & development		4,741		3,949		3,468
Selling		9,305		5,832		2,676
General & administrative		5,930		5,268		3,342
Stock-based compensation		757		769		347
Amortization		2,509		1,854		820
		23,242		17,672		10,653
Earnings (loss) before the undernoted		(4,725)		(4,488)		5,757
Redemption premium on preferred shares		–		–		168
Gain on sale of marketable securities		(1,050)		–		–
Foreign exchange loss		643		789		802
Interest income		(221)		(139)		(21)
Restructuring charges		1,043		–		–
Earnings (loss) before income tax		(5,140)		(5,138)		4,808
Current tax expense		–		–		145
Earnings (loss) from continuing operations		(5,140)		(5,138)		4,663
Loss from discontinued operations		14,747		6,900		370
Net earnings (loss)	$	(19,887)	$	(12,038)	$	4,293
Earnings (loss) per common share from continuing operations:						
Basic	$	(0.11)	$	(0.12)	$	0.16
Diluted	$	(0.11)	$	(0.12)	$	0.15
Earnings (loss) per common share						
Basic	$	(0.43)	$	(0.29)	$	0.13
Diluted	$	(0.43)	$	(0.29)	$	0.13
Total assets	$	65,822	$	90,189	$	62,807
Long-term debt		301		784		–

Year Ended December 31, 2006 versus Year Ended December 31, 2005

Discontinued Operations

In the fourth quarter of 2005, the Company commenced activities to restructure and dispose of its Telematics product line, which was a component of the Wireless Business Unit. On April 24, 2006, the Company announced it had signed a definitive agreement to sell its Fixed Wireless Telephone product line to Telular Corporation. The transaction closed on May 8, 2006. On November 26, 2006, the Company signed a definitive agreement to sell its Asset-Link Telematics product line to CHI-Agra Products Inc. The transaction closed on December 18, 2006. On July 28, 2006, the Company announced that it had signed an agreement to sell the Location Tag Telematics product line to Trace Technologies, LLC. This transaction has not closed due to circumstances impacting Trace and which are out of the control of the Company. It is uncertain as to whether this transaction will close. As a result of these activities, and in accordance with Canadian generally accepted accounting principles ("GAAP"), the Wireless Business Unit financial components have been treated as "discontinued operations" in the Company's financial statements. The primary areas impacted by this treatment are:

1. the results of operations of the Fixed Wireless Telephone and Telematics product lines are removed from revenues and expenses and reported as a separate element of income in the statement of operations;

2. the assets and liabilities of the Fixed Wireless Telephone and Telematics product lines are presented separately in the appropriate sections of the balance sheet;

3. the statement of operations and balance sheet treatment is applied retroactively for all periods presented; and

4. the assets of the Fixed Wireless Telephone and Telematics product lines are measured at the lower of their carrying amount or their fair value less the expected costs to sell.

The results of operations reported in this MD&A have been restated to reclassify the revenues and expenses into the line item "loss from discontinued operations". Analysis of the results of operations and balance sheet components reflect this restatement. Because of this restatement, the results of operations reflect the continuing operations of the Hemisphere GPS product lines. Greater detail relating to the discontinued operations is included in note 11 of the consolidated financial statements.

Del Norte Acquisition

On January 19, 2006, the Company announced that it had completed the acquisition of the business assets of Del Norte Technology, Inc. ("Del Norte"). Del Norte was a competitor in the aerial agriculture guidance market with over 20 years of experience in designing and manufacturing specialized GPS products for the aerial guidance market – primarily crop dusting or aerial spraying. Hemisphere GPS purchased the Del Norte business assets for cash of US$940 thousand. Greater detail relating to the acquisition is included in note 2 of the consolidated financial statements.

Outback Acquisition

On April 8, 2005, the Company, through its wholly-owned subsidiary Satloc LLC (subsequently re-named Hemisphere GPS LLC), completed the acquisition of certain sales, marketing and distribution assets relating to the Outback line of products from RHS, Inc. ("RHS"). Consideration, including acquisition costs of $845 thousand, totaled $26.4 million and was comprised of 4.4 million common shares and approximately $11.9 million in cash. An additional 2.1 million common shares may be issued to RHS if the Outback Business achieves certain growth and profitability targets over 2005, 2006 and 2007. If such common shares become issuable, they will be accounted for as additional goodwill on the acquisition. No additional shares are payable based on 2005 and 2006 performance. The growth and profitability targets are stated on an annual and cumulative basis such that all of the common shares remain issuable if the cumulative targets are met, despite a shortfall relative to the annual targets in any year.

As part of the acquisition, CSI acquired working capital of US$2.0 million representing inventory and current assets, net of accounts payable and other current liabilities associated with the Outback Business. In addition, CSI acquired certain tangible and intangible assets associated with the Outback Business and assumed debt of approximately $1.3 million. Greater detail relating to the acquisition is included in note 2 of the consolidated financial statements.

Continuing Operations – Hemisphere GPS

Revenues

For the year ended December 31, 2006, revenues were a record for the Company at $45.9 million, an increase of 40% from $32.7 million in 2005. As revenues are substantially all denominated in US dollars, revenue increases in US dollars have been negatively impacted by the weakening US dollar exchange rate relative to the Canadian dollar, which declined approximately 6% on average in 2006 and by 7% in both 2005 and 2004.

On April 8, 2005, the Company completed the acquisition of the Outback Business from RHS, Inc. As a result of this acquisition, prices realized by CSI for sales of the Outback product line now represent the final retail price for sales to end users. Prior to April 9, 2005, sales of Outback products were made to RHS, Inc. at distributor prices, which are significantly lower than retail prices. As a result, the revenues earned by Hemisphere GPS would have been higher in 2005 if the acquisition had closed at the beginning of 2005, rather than on April 8th.

In 2006, Hemisphere GPS sales were positively impacted by strong agricultural markets which drove stronger sales of ground agricultural guidance products. New products introduced in late 2005 and in 2006, including the Outback S2 and Baseline ground agriculture products, also contributed to increased sales. Sales of the Company's precision products line were also stronger in 2006. Strong sales of the Company's Vector heading sensor products to marine markets, and sales of differential GPS receivers, contributed to revenues from this product line.

On January 19, 2006, the Company announced that it had closed the Del Norte acquisition. Despite the incremental revenues from this transaction, revenues from the air agricultural product line were lower in 2006, than in 2005. This was a result of higher aviation fuel costs, dry weather conditions in certain of our markets and customer expectations regarding product rationalization and new product introductions.

Gross Margins

The Company reported gross margins of $18.5 million in the year, an increase of 40% relative to gross margins of $13.2 million in 2005. Gross margins, as a percentage of revenue, were 40% in 2006 and 2005.

In 2006, the Company changed the classification of dealer commissions that are paid to Outback dealers when Outback products are sold. In 2005, dealer commissions were reported as a separate line of operating expenses. For 2006, the Company revised this treatment to include the dealer commissions in cost of sales. These costs represent commissions that are paid to the network of third-party dealers – called Outback Guidance Centres – across North America. For each sale of an Outback product in North America, a commission is paid to the dealer in the relevant region. The Company is of the view that the inclusion of these variable costs in the determination of gross margin is a more meaningful accounting treatment. The comparative financial results have been restated for this change.

A significant factor impacting ground agriculture product gross margins in 2005 and 2006 arose from the accounting treatment that was required to be applied to inventory acquired in the acquisition of the Outback Business. Inventory that CSI had previously sold to RHS and was acquired in the acquisition, was recorded under GAAP accounting at the cost that was carried on RHS' books at the time of the acquisition. This included the margin that CSI had earned on the original sale of the product to RHS. Until that inventory was consumed, the margins earned on the sale of the Outback products included only the share of margins previously earned by RHS on product sales. As a result, margins on sales of Outback products during 2005 and 2006 were lower than they would have been had CSI manufactured and sold this equipment directly. The impact of this "acquisition inventory step-up cost" was an increase in cost of sales of approximately $1.3 million in 2006 and $2.9 million in 2005.

Another item impacting gross margins in 2005, 2006 and in future years is the accounting treatment associated with the Company's Outback Extended Service Plan that was introduced in the fourth quarter of 2005. This program enables customers to extend their warranty from the standard one year warranty, to three years on Outback products. Previously, the three year warranty was standard on all sales. While this revenue is collected at the time of the sale, under generally accepted accounting principles, it is recognized over the period to which the revenue relates – which is the second and third year of the warranty. Accordingly, the cash collected at the time of the sale relating to this program is set up as deferred revenue on the balance sheet and is recognized as revenue in the future periods to which it relates. Similarly, the commissions paid relating to these revenues are also set up on the balance sheet as deferred charges and will be recognized as expenses during the same period. During 2006, the Company collected Extended Service Plan revenues of approximately $2.2 million, representing about 5% of revenue, which have been set up as deferred revenue on the balance sheet. In 2007, the Company will begin to recognize the appropriate portion of deferred revenues collected.

In the third quarter, a detailed assessment of the salability of both raw materials and finished product was conducted in connection with the restructuring of Hemisphere GPS and the planning and implementation of the Company's new Enterprise Resource Planning ("ERP") system. Based upon this assessment, Management determined that an additional reserve for obsolescence was required in the amount of $280 thousand. An additional inventory provision of approximately $720 thousand was recorded related to inventory costs included in warranty pool inventory that was originally purchased in the Outback business asset acquisition in April 2005.

Expenses and Other

Operating expenses were $23.2 million in 2006, up by 31% from $17.7 million in 2005. On a percentage basis, operating expenses were 51% of revenue in 2006 versus 54% in 2005.

Research and Development Expenses

Research and development expenses in 2006 were $4.7 million compared to $3.9 million in 2005, an increase of 20%. The Company has targeted that it will spend 10% of its revenue in research and development activities to maintain and expand its technology and products. In 2006, research and development expense was at the Company's target of 10%. Many of the research and development costs incurred in Canada qualify for scientific research and experimental development income tax treatment. This includes the elective deferral of research and development expenses and the eligibility for such expenses to earn investment tax credits. Research and development costs incurred in the United States also qualify for tax credits in certain circumstances.

Selling and General and Administrative Expenses

Selling expenses were $9.3 million in 2006, up by 60% from $5.8 million in 2005. The largest part of the increase in 2006 relates to the acquisitions of the Outback Business on April 8, 2005 and the Del Norte business assets on January 19, 2006. The incremental sales and marketing costs associated with these businesses based on the timing of the acquisitions, is estimated to be approximately $2.3 million for 2006. Additional sales and marketing expense increases result from increased revenue and activity levels.

General and administrative ("G&A") expenses increased by $0.6 million or 11% from $5.3 million in 2005 to $5.9 million in 2006. Of this increase, approximately $0.5 million relates to incremental general and administrative expenses from the Del Norte and Outback acquisitions.

Amortization Expense

Amortization expense was $2.5 million in 2006, an increase of $0.6 million or 32% from $1.9 million in 2005. The majority of this increase relates to incremental amortization relating to the acquisition of the Del Norte and Outback business assets of approximately $0.4 million.

Gain on Sale of Marketable Securities

In December 2006, the Company sold 1,931,745 common shares of Telular Corporation that it had received as a component of the proceeds for the sale of the Fixed Wireless Telephone product line following the expiry of the six month hold period on the shares. Net proceeds of disposition for the sale were $7.2 million, giving rise to a gain on sale of approximately $1.0 million.

Interest and Foreign Exchange

In 2006, the Company recorded interest income of $221 thousand compared to interest income of $139 thousand in 2005. Throughout the year the Company earned interest income on its cash balance, which was offset by interest expense on capital leases and long-term debt.

The Company realized a foreign exchange loss of $643 thousand during 2006 compared to a loss of $789 thousand in 2005. This loss relates primarily to the impact of a weakening US dollar on the translation of US dollar denominated working capital into Canadian dollars.

Management implemented a foreign exchange risk management program in early 2005, to hedge the Company's US dollar working capital against exchange rate fluctuations. In late 2005, the Board of Directors of CSI approved an increase in the authorized hedging limit to US$20 million from US$7.5 million to reflect an increase in the Company's US dollar working capital.

In addition to the foreign exchange translation loss, the strengthening Canadian dollar also impacted the reported amount of revenues and expenses in each category of the Consolidated Statements of Operations and Deficit where a component of the category is denominated in US dollars.

Restructuring Costs

Restructuring costs of $1.0 million were incurred in 2006 associated with senior management changes and corporate restructuring activities related to the transition of the Company to a pureplay GPS strategy.

Income Taxes
For the year ended December 31, 2006, the Company did not record any amounts related to income taxes.

The Company's US operating subsidiaries, CSI Wireless LLC and Hemisphere GPS LLC, file as a combined entity for US federal tax purposes. As at December 31, 2006, the Company has cumulative US net operating losses of $37.4 million, additional tax deductions of $26.7 million that can be used to reduce US taxable income in future years, as well as $2.9 million of general business credits that can be used to reduce federal taxes otherwise payable in future years.

In Canada, at the end of 2006, CSI Wireless Inc. has tax deductions and loss carryforwards of $8.4 million that can be used to reduce Canadian taxable income in future years, as well as investment tax credits in the amount of $2.4 million that can be used to reduce Canadian federal taxes otherwise payable in future years.

Discontinued Operations - Wireless Business Unit

The Company recorded a loss from discontinued operations of $14.7 million for the year ended December 31, 2006 compared to a loss of $6.9 million in 2005. As previously described, these amounts represent the results of operations of the Fixed Wireless Telephone and Telematics product lines which were operated as the Company's Wireless Business Unit.

Summarized annual results for the discontinued operations are as follows:

(000's)	Year Ended December 31 2006	2005
Sales	$ 16,598	$ 46,525
Gross margin	2,303	6,538
Operating expenses	8,388	12,543
Loss before the following	(6,085)	(6,005)
Gain on sale of product lines	(383)	–
Severence and wind-down costs	1,071	–
Interest income	(26)	(5)
Goodwill impairment	8,000	900
Loss from discontinued operations	$ (14,747)	$ (6,900)

Revenues from discontinued operations declined from $46.5 million in 2005 to $16.6 million in 2006 due to the strategic decision of the Company to exit the Wireless product lines during 2006. Operating expenses declined for the same reason.

Included in operating expenses from discontinued operations is a bad debt provision totaling $2.5 million relating to an accounts receivable for sales of fixed wireless telephones to India during the first quarter of 2006. Further to its collection efforts relating to this account, CSI filed a lawsuit in February 2007 to collect the remainder of the accounts receivable and address additional claims against the parties involved. The Company intends to aggressively pursue the claims set out in the lawsuit. As the account has been fully written off, we do not anticipate any additional negative impact from this issue apart from the associated legal fees.

On October 21, 2006, the Company announced that Longview Advantage, Inc., a former customer of the Telematics product line filed a lawsuit against the Company claiming damages of $35 million. The Company believes that the legal claim is without merit and intends to aggressively defend its position. A Statement of Defense was filed in March 2007 together with a counter-claim against Longview to recover damages that CSI has incurred in connection with the issues outlined in the legal documents.

Fixed Wireless Telephone Product Line Divestment
On April 24, 2006, the Company announced that it had signed a definitive agreement to sell its Fixed Wireless Telephone ("FWT") product line to Telular Corporation ("Telular") of Vernon Hills, Illinois. The transaction closed on May 8, 2006. Proceeds of disposition related to the sale were as follows:

- $3.2 (US$2.9) million cash on closing, not including $178 thousand paid for working capital;
- $0.6 (US$0.5) million accounts receivable relating to an agreed inventory reserve; and
- $6.2 (US$5.6) million Telular common shares (1,931,745 shares), with a 6 month hold period.

In addition to these proceeds, the Company is eligible for up to 1,159,047 contingent Telular common shares based on the revenues earned by the buyer on GSM and TDMA fixed wireless telephone sales in specific markets during defined periods that will end no later than June 30, 2007. The first segment of the earnout was completed on December 31, 2006 and resulted in the Company earning approximately 151,000 additional common shares of Telular Corporation representing 29% of the total available under this earnout segment of 515,132 shares. These shares have been recorded as additional proceeds on the sale of the Fixed Wireless Telephone product line. The final segment of the earnout will be completed on June 30, 2007. Under this segment of the earnout, the Company has the potential to earn 643,915 common shares. Although the final details related to the related revenues are not known at this time, the Company does not expect that a significant number of shares will be earned related to this earnout segment.

Prior to the divestment of the Fixed Wireless Telephone product line, and in accordance with Canadian generally accepted accounting principles, in the first quarter of 2006 the Company evaluated the carrying value of the assets related to the discontinued operations and determined that there was an impairment in the goodwill balance related to such operations. Accordingly, during the first quarter a goodwill impairment provision was recorded of $8 million.

The Company realized a gain on sale of the Fixed Wireless Telephone product line totaling $0.8 million, including the additional common shares earned in the fourth quarter. Further detail relating to the divestment of the Fixed Wireless Telephone product line is included in note 11 of the consolidated financial statements.

Asset-Link Telematics Product Line Divestment
On November 26, 2006, the Company signed a definitive agreement to sell its Asset-Link Telematics product line to CHI-Agra Products Inc. The transaction closed on December 18, 2006. Proceeds for the sale included $12 thousand of cash and a promissory note for $104 thousand. In addition, the Company may earn up to US$250 thousand based on sales of Asset-Link products by the purchaser. The Company recorded a loss on the sale of the Asset-Link Telematics product line of $0.4 million.

Location Tag Product Line Divestment
On July 28, 2006, the Company announced that it had signed an agreement to sell the Location Tag Telematics product line to Trace Technologies, LLC. This transaction has not closed due to circumstances impacting Trace and which are out of the control of the Company. It is uncertain as to whether this transaction will close. If the deal does not close, the Company will receive a break fee of US$125 thousand.

Severance and Wind-down Costs
In connection with the sale of the Wireless Business Unit product lines, and the wind-down of the activities, the Company incurred severance and other wind-down costs of $1.1 million.

Following the sale of the Asset-Link Telematics product line, operating activities related to the discontinued operations have ceased, apart from legal costs that will be incurred in connection with the legal issues discussed.

Balance Sheet
There remain some residual assets and liabilities on the balance sheet related to the discontinued operations. Assets are comprised of accounts receivable, as well as inventory and fixed assets associated with the Location Tag product line. Liabilities relate primarily to accrued costs associated with winding down the business and estimated warranty liabilities.

Earnings

In 2006, the Company incurred a loss from continuing operations of $5.1 million or $0.11 per share (basic and diluted), compared to a loss of $5.1 million or $0.12 per share (basic and diluted) in 2005.

The Company realized a net loss of $19.9 million or $0.43 per common share (basic and diluted) in 2006, compared to a loss of $12.0 million or $0.29 per share (basic and diluted) in 2005.

Summary of Quarterly Results

	Quarter Ended							
(000's)	Mar 31 2005	Jun 30 2005	Sep 30 2005	Dec 31 2005	Mar 31 2006	Jun 30 2006	Sep 30 2006	Dec 31 2006
Sales	$ 9,773	$11,642	$ 5,637	$ 5,625	$15,514	$16,907	$ 5,617	$ 7,870
Gross margin	5,116	4,020	2,106	1,943	6,202	8,379	1,055	2,881
	52%	35%	37%	35%	40%	50%	19%	37%
Expenses								
Research and development	933	933	1,094	990	1,170	1,227	1,134	1,209
Sales and marketing	661	1,727	1,626	1,818	2,819	2,342	1,772	2,372
General and administrative	1,049	1,295	1,537	1,387	1,330	1,532	1,347	1,721
Stock-based compensation	145	170	244	211	143	186	215	213
Amortization	197	499	565	592	587	619	638	666
	2,985	4,624	5,066	4,998	6,049	5,906	5,106	6,181
Earnings (loss) before undernoted items	2,131	(604)	(2,960)	(3,055)	153	2,473	(4,051)	(3,300)
Restructuring costs	–	–	–	–	–	1,043	–	–
Gain on sale of marketable securities	–	–	–	–	–	–	–	(1,050)
Foreign exchange (gain) loss	(33)	(56)	733	145	67	762	(133)	(53)
Interest income	(42)	(16)	(43)	(38)	(16)	(94)	(84)	(27)
Earnings (loss) before income tax	2,206	(532)	(3,650)	(3,162)	102	762	(3,834)	(2,170)
Current income tax	45	(45)	–	–	–	–	–	–
Earnings (loss) from continuing operations	2,161	(487)	(3,650)	(3,162)	102	762	(3,834)	(2,170)
Loss from discontinued operations	(844)	(615)	(2,138)	(3,302)	(9,257)	(2,929)	(1,978)	(582)
Net earnings (loss)	$ 1,317	$ (1,102)	$ (5,788)	$ (6,464)	$ (9,155)	$ (2,167)	$ (5,812)	$ (2,752)
Earnings (loss) per common share from continuing operations*:								
Basic and diluted	$ 0.06	$ (0.01)	$ (0.08)	$ (0.07)	$ 0.00	$ 0.02	$ (0.08)	$ (0.05)
Net earnings (loss) per common share*:								
Basic and diluted	$ 0.04	$ (0.03)	$ (0.13)	$ (0.15)	$ (0.20)	$ (0.05)	$ (0.13)	$ (0.06)

** Calculated using quarterly weighted average number of shares outstanding.*

Quarterly revenues have varied during the past eight quarters due to the following factors:

1. A large component of Hemisphere GPS revenues are derived from the North American agricultural markets and have historically been impacted by the seasonality of the agricultural buying season with the first half of the year being the strongest and the second half being the weakest. The acquisition of the Outback Business in April 2005 has increased this seasonality as revenues are now based on end customer sales whereas prior to this acquisition, CSI's customer, RHS, Inc., purchased on a level-loaded basis during the last half of the year to support heavy sales in the first half of the following year. Management is undertaking initiatives to attempt to mitigate the seasonality of the business, including increasing sales efforts in the Southern Hemisphere which is generally counter-seasonal to the Northern hemisphere agricultural seasons.

2. The acquisition of the Outback Business in April 2005 resulted in variability in the Company's revenues as the revenues, which were previously sold to RHS, Inc. at distributor prices are now generally sold to end customers at retail prices, which are substantially higher than distributor prices.

3. The Outback business assets were acquired in April 2005 and the Del Norte business assets were acquired in January 2006. These acquisitions impacted revenues and expenses after the date of their closing.

Quarter Ended December 31, 2006 versus Quarter Ended December 31, 2005

Continuing Operations – Hemisphere GPS

Revenues

Fourth quarter revenues of $7.9 million were an increase of 41% from revenues of $5.6 million in the fourth quarter of 2005. The Company is well positioned to benefit from the positive conditions impacting the agricultural markets and saw strong revenue growth in fourth quarter sales of ground agricultural products. In addition, the Company saw growth from its precision products line focused on the marine and GIS markets. Revenues from the Company's air products were negatively impacted by higher aviation fuel costs and by dry weather conditions in certain of our markets.

Gross Margins

Gross margins in the fourth quarter of 2006 were 37% or $2.9 million compared to 35% and $1.9 million in the fourth quarter of 2005. The seasonality of the Company's revenues have impacted the Company's gross margins in the last half of the year as fixed manufacturing overhead expenses are allocated over a lower revenue base. In addition, the product mix during the last half of the year impacts margins as the higher margin ground agriculture products make up a smaller relative portion of total revenues.

In December, the Company transitioned to a new ERP system which will support a higher level of activity-based costing in Hemisphere's manufacturing activities. As a result, the Company expects that there will be a greater absorption of manufacturing overheads into product costs and therefore, the Company anticipates that the seasonality will have a smaller impact on gross margins in the last half of 2007 and future years than it has had in the past.

Expenses and Other

Operating expenses of $6.2 million in the fourth quarter were up 24% relative to $5.0 million in the fourth quarter of 2005. Increases in sales and marketing expenses and general and administrative expenses were the primary drivers of this increase.

Sales and marketing expenses increased in the fourth quarter related to increased promotional activity associated with the re-focusing of the Company on the GPS business, including higher advertising and tradeshow expenses in advance of the 2007 agricultural buying season. In addition, cost increases arose due to the higher fourth quarter revenue level and from the acquisition of the Del Norte aerial agriculture business assets which closed in the first quarter of 2006.

In the fourth quarter, general and administrative expenses increased by 24% relative to 2005. This increase is a result of the Del Norte acquisition in the first quarter, increased legal fees, increased audit fees and other increased costs associated with activity levels. In addition, G&A has been higher due to the support activities related to exiting the Wireless businesses, but which are not allocable to the discontinued operations.

Gain on Sale of Marketable Securities

In December 2006, the Company sold 1,931,745 common shares of Telular Corporation that it had received as a component of the proceeds for the sale of the Fixed Wireless Telephone product line. Net proceeds of disposition for the sale were $7.2 million, giving rise to a gain on sale of approximately $1.0 million.

Interest and Foreign Exchange

Interest income earned in the fourth quarter of 2006 was $27 thousand compared to $38 thousand in the same quarter of 2005. The Company earned interest income on its cash balance, which was offset by interest expense on capital leases and long-term debt.

The Company realized a foreign exchange gain in the fourth quarter of $53 thousand, compared to a foreign exchange loss in the fourth quarter of 2005 of $145 thousand.

Discontinued Operations – Wireless Business Unit

Revenues of $0.2 million were down from $15.5 million due to the divestment of the Fixed Wireless Telephone and Asset-Link Telematics product lines during 2006.

The Company recorded an incremental gain on the sale of the Fixed Wireless Telephone product line in the fourth quarter of $0.6 million from additional earnout shares received from Telular Corporation and discussed earlier in this MD&A. The Company recorded a loss in the fourth quarter of $0.4 million related to the sale of the Asset-Link Telematics product line during the quarter.

The Company recorded a loss from discontinued operations of $0.6 million for the quarter ended December 31, 2006 compared to a loss of $3.3 million in the same quarter of 2005. The reduction in the amount of the loss relates primarily to the divestment of the related product lines during 2006.

Earnings

In the fourth quarter of 2006, the Company incurred a loss from continuing operations of $2.2 million, or $0.05 per share (basic and diluted), compared to a fourth quarter 2005 loss of $3.2 million or $0.07 per share (basic and diluted).

The Company incurred a loss of $2.8 million, or $0.06 per share (basic and diluted) in the fourth quarter of 2006, compared to a fourth quarter 2005 loss of $6.5 million or $0.15 per share (basic and diluted).

Liquidity and Capital Resources

Working Capital

CSI held cash at December 31, 2006 of $11.2 million compared to $12.6 million at the end of 2005.

CSI has a bank operating line of credit with a maximum limit of $7,000,000. The available borrowing limit under this operating line is determined based on trade receivables and inventory levels. The utilization of this line of credit draws interest at prime plus 0.5%. The Corporation has entered into a general security agreement with its bank to secure such indebtedness. There were no balances drawn against this line of credit at the end of 2006 or 2005.

Accounts receivable at December 31, 2006 was $5.0 million, versus $3.4 million at December 31, 2005. In North America, the Company's Outback product line is generally sold directly to end customers and these sales typically take place with credit card or by prepayment. Therefore, the accounts receivable primarily represent sales of non-Outback product lines, or sales of Outback products outside of North America. The balance has increased at the end of 2006 as a result of increased revenues.

Inventories consist of components, work in process and finished goods related to the products manufactured and sold by the Company. Inventory levels increased from $11.0 million at December 31, 2005 to $11.5 million at the end of December 2006. The increase in inventory relates to increased revenue levels. During the last half of 2006, the Company built inventory to a level necessary to support expected demand in the strongest selling season which takes place in the first half of the year.

The Company is focused on optimizing its inventory levels. In December 2006, CSI implemented the second phase of a new ERP system, including the manufacturing planning component. Through this system, the Company expects to achieve improvements in manufacturing and procurement processes that will enable it to reduce relative inventory levels over time. In addition, the Company has out-sourced the manufacturing of certain higher-volume elements of our products, which should result in cost savings and capacity increases beginning in the second quarter of 2007.

Foreign Exchange Hedging Program

The Company has a foreign currency risk management program in place to mitigate the impact of foreign exchange fluctuations on its US dollar denominated working capital. The Board of Directors has approved the execution of financial instruments with a maximum notional value of US$20 million which have the objective of offsetting the exposure the Company faces by carrying positive US dollar working capital. To date, the Company has entered financial instruments which are settled for cash on the last business day of each quarter using the Bank of Canada noon day rate as the reference foreign exchange rate. At the end of each quarter in 2006, no financial instruments remained outstanding.

Property and Equipment

During 2006, excluding assets acquired in connection with the acquisition of the Del Norte business assets, the Company invested $4.1 million in property and equipment. The most significant capital addition in 2006 was $2.8 million associated with the renovation and equipping of a sales, distribution and repair facility in Hiawatha, Kansas. In addition, capital additions included information technology-related capital, research equipment and production equipment.

In connection with the acquisition of the Del Norte business assets, tangible capital assets were acquired totaling $0.1 million and intangible capital assets were acquired totaling $0.3 million. Tangible assets included office equipment, computer equipment and computer software. Intangible assets included tradenames, marketing and distribution assets, and technology.

Goodwill

Goodwill of $0.6 million was recorded arising from the Del Norte business assets acquisition.

Share Capital

At March 26, 2007, there were 46,145,069 common shares outstanding.

During 2006, 269,167 stock options were exercised for cash proceeds of $430 thousand.

Cash Flow

Continuing operations used $0.3 million of cash in operations in 2006, after consideration of the net change in non-cash operating working capital. Net proceeds received from the sale of the Telular Corporation shares in December 2006 were $7.2 million. $1.0 million of cash was used for the acquisition of the Del Norte business assets, $4.1 million of cash was used to acquire capital assets and $0.8 million was used for principal repayments on long-term debt and capital leases. Discontinued operations utilized cash of $3.0 million.

Contractual Obligations

Effective December 31, 2006 (000's)	Total	Payments Due by Period Less than 1-year	1 to 3 years	4 to 5 years	After 5 years
Long-term debt	$ 301	$ 301	$ –	$ –	$ –
Capital lease obligations	393	291	102	–	–
Operating leases	3,092	971	1,248	873	–
Total contractual obligations	$ 3,786	$ 1,563	$ 1,350	$ 873	$ –

Related Party Transactions

In connection with the acquisition of the Outback Business, the Company had transactions during 2006 with the seller, RHS, which is a company wholly-owned by a director and former member of CSI's senior management team. The details, including the business purpose of the transactions, the recorded amounts and the measurement basis used is provided in note 14 of the consolidated financial statements.

Critical Accounting Policies and Estimates
CSI prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. The preparation of these financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

1. The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay trade balances owing to CSI. This allowance is determined based on a review of specific customers, historical experience and economic circumstances.

2. Inventories are carried at the lower of cost and market value. Provisions for excess or obsolete inventory are recorded based on our assessment of the estimated market value of component, work in process, and finished goods inventory.

3. The Company performs the required test for goodwill impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In performing the required test, Management estimates the future cash-flows of each of its reporting units.

4. The Company evaluates its future tax assets and records a valuation allowance where the recovery of future tax does not meet the required level of certainty. At December 31, 2006, valuation allowances are provided for the full amount of future tax assets.

5. The Company accrues reserves for product warranty expenses for the repair or replacement of defective products sold. The warranty reserve is based on an assessment of the historical experience of the Company. If the Company suffers a decrease in the quality in its products, an increase in warranty reserve may be required.

Accounting Policies
In November 2005, the Company implemented an extended service plan under which Outback product customers can extend the warranty on their product from the standard one year warranty to three years. Revenues from the sale of the Outback extended service plan is recorded as deferred revenue at the time that payment is received and are recognized on a pro-rata basis over the extended service period. Commissions paid on extended service program revenues are recorded as deferred charges at the time they are paid, and are expensed on a pro-rata basis over the extended service period.

Business and Market Risks
The nature of the Company's business gives rise to certain risks that may impact future financial results. In addition to risks described elsewhere in this report, the Company identifies the following risks to currently be the most significant:

1. *Financial Results*
   The Company incurred significant losses during the years ended December 31, 2005 and 2006. While 2004 was a profitable year, CSI incurred losses in each of the three years prior to 2004. If the Company fails to execute on its business plan, it is possible that losses will occur in any of the four quarters of 2007, and that a loss could be realized in 2007. Future revenues, gross margins and expenses are subject to many factors beyond the Company's control. Examples include:

   • the liquidity and business plan execution of customers;
   • general industry conditions;
   • the rate of acceptance of the Company's products;
   • new technologies in the marketplace;
   • the development and timing of the introduction of new products;

- price and product competition from competitors;
- the product mix of the Company's sales;
- possible delays in manufacturing or shipment of the Company's products;
- possible delays or shortages in component supplies; and
- other risk factors described in this MD&A.

2. *Foreign Currency Valuations*

   Sales of CSI's products are primarily transacted in US dollars. As revenues are reported by the Company in Canadian dollars, the Company is exposed to risk associated with US and Canadian dollar currency fluctuations. These risks are mitigated to some extent by purchasing inventory, other costs and many services in US dollars. However, a strengthening in the Canadian dollar relative to the US dollar results in lower revenues and earnings for the Company. As the Company expands with increased global sales, it is expected that it may be necessary to transact sales in foreign currencies other than US dollars, thus exposing the Company to additional foreign currency risk.

   In 2006 the Company entered into derivative financial instruments to manage its foreign currency exposure in connection with the implementation of a foreign exchange risk management program. Although this program has been implemented, there is no guarantee the Company will not experience foreign exchange gains and losses in future periods.

3. *General Economic and Financial Market Conditions*

   In 2006, the Company faced negative conditions in certain economic, financial and product markets. Negative changes in market and business environments, or adverse geopolitical events, could have a negative impact on the Company's 2007 performance. The Company's agricultural product sales were affected to some extent by drought conditions in 2006 and in prior years. This negatively impacted sales of agriculture guidance products. Should negative weather conditions arise in 2007, the Company could be faced with lower-than-expected revenues in the impacted market areas.

4. *Dependence on Key Personnel and Consultants*

   The Company's success is largely dependent upon the performance of personnel and key consultants. The unexpected loss or departure of any of the key officers, employees or consultants could be detrimental to the future operations. The success of the Company will depend, in part, upon the ability to attract and retain qualified personnel, as they are needed. The competition for highly skilled technical, research and development, management, and other employees is high in the GPS industry. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

5. *Competition*

   The Company is competing in a highly competitive industry that is constantly evolving and changing. The Corporation expects this competition to increase as new competitors enter the market. Many of our competitors have greater financial, technical, sales, production and marketing resources. We compete with companies that also have established customer bases and greater name recognition. This may allow competitors to respond more quickly to the GPS market and better implement technological developments. There is no assurance that the Company will be able to compete on the same scale as these companies. Such competition may result in reduced sales, reduced margins or increased operating expenses.

6. *Third Party Dependence*

   Many of the Company's products rely on signals from satellites that it does not own or operate. Such satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. The satellites have limited design lives and are subject to damage by the hostile space environment in which they operate. If a significant number of satellites were to become inoperable, there could be a substantial delay before they are replaced with new satellites. A reduction in the number of operating satellites would impair the current utility of the Global Positioning System ("GPS") and/or the growth of current and additional market opportunities, which would adversely affect our results of operations. In addition, there is no assurance that the US government will remain committed to the operation and maintenance of GPS satellites over a long period of time; or that the policies of the US government for the commercial use of GPS without charge will remain unchanged.

7. *Dependence on New Products*
The Company must continue to make significant investments in research and development to develop new products, enhance existing products and achieve market acceptance for such products. However, there can be no assurance that development-stage products will be successfully completed or, if developed, will achieve significant customer acceptance. If the Company is unable to successfully define, develop and introduce competitive new products, and enhance existing products, future results would be adversely affected.

8. *Intellectual Property*
The industry in which the Company operates has many participants that own, or claim to own, proprietary intellectual property. The Company has received, and may receive, claims from third parties claiming that the Company has infringed on their intellectual property rights. Determination of the rights to intellectual property is very complex, and litigation may be required to establish if the Company has violated the intellectual property rights of others. As a result of such claims, the Company could be subject to losses arising from product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of Managements' time and attention, and other costs.

9. *Government Regulation*
Our products are subject to government regulation in the United States, Canada and other regions in which we operate. Although we believe that we have obtained the necessary approvals for the products that we currently sell, we may not be able to obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to obtain regulatory approvals from countries in which we may desire to sell products in the future.

10. *Availability of Key Supplies*
The Company is reliant upon certain key suppliers for raw materials and components, and no assurances can be given that we will not experience delays or other difficulties in obtaining supplies, as a result of trade disputes or other matters. While no single vendor currently supplies more than 10% of the raw materials used by the Company, the raw materials used in certain operations are available only through a limited number of vendors. Although we believe there are alternative suppliers for most of our key requirements, if our current suppliers are unable to provide the necessary raw materials or otherwise fail to timely deliver products in the quantities required, any resulting delays in the manufacture or distribution of existing products could have a material adverse effect on our results of operations and its financial condition.

11. *Credit Risk*
The Company has undergone significant sales growth resulting in a significant growth in its customer base. As a result, the Company has an increasing exposure to credit risk related to trade balances owing from customers. In the normal course of business, the Company monitors the financial condition of its customers and reviews the credit history of new customers to establish credit limits. The Company establishes an allowance for doubtful accounts that corresponds to the credit risk of its customers, historical trends and economic circumstances. Losses could be realized by the Company if customers default on their balances owing.

12. *Technology Risk*
The Company's success in the GPS markets may depend in part on our ability to develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. The Company's products embody complex technology that may not meet those standards, changes and preferences. We may be unable to successfully address these developments on a timely basis or at all. Failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause the Company to be unable to recover significant research and development expenses and could reduce our revenue.

13. *Future Acquisitions*
The Company may seek to expand our business through the acquisition of compatible products or businesses. There can be no assurance that suitable acquisition candidates can be identified and acquired on favourable terms, or that the acquired operations can be profitably operated or integrated into CSI. In addition, any internally generated growth experienced by CSI could place significant demands on our Management, thereby restricting or limiting our available time and opportunity to identify and evaluate potential acquisitions. To the extent Management is successful in identifying suitable companies or products for acquisition, we may deem it necessary or advisable to finance such acquisitions through the issuance of Common Shares, securities convertible into Common Shares, debt financing, or a combination thereof. In such cases, the issuance of Common Shares, Preferred Shares or convertible securities could result in dilution to the holders of Common Shares at the time of such issuance or conversion. The issuance of debt to finance acquisitions may result in, among other things, the encumbrance of certain of our assets, impeding our ability to obtain bank financing, decreasing our liquidity, and adversely affecting our ability to declare and pay dividends to our shareholders.

14. *Proprietary Protection*
The Company's success will depend, in part, on its ability to obtain patents, maintain trade secrets and unpatented know-how protection, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent our rights. CSI relies on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures and other measures to protect its proprietary information. There can be no assurance that the steps taken will prevent misappropriation of its proprietary rights. The Company's competitors also could independently develop technology similar to its technology. Although the Company does not believe that its products or services infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company, or that any such assertions or prosecutions will not materially adversely affect its business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, CSI could incur significant costs and diversion of resources with respect to the defence thereof, which could have a material adverse effect on its business.

15. *Conflicts of Interest*
Certain directors of CSI are engaged and will continue to be engaged in the design, manufacture and marketing of GPS products, and situations may arise where the directors may be in direct competition with CSI. Conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the Alberta Business Corporations Act which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with CSI to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

16. *Product Liability*
The sale and use of the Company's products entail risk of product liability. Although we have product liability insurance, there is no assurance that such insurance will be sufficient or will continue to be available on reasonable terms.

17. *New and Emerging Markets*
Many of the markets for the Company's products are new and emerging. Its success will be significantly affected by the outcome of the development of these new markets.

18. *Physical Facilities*
The Company has facilities at several different locations, as well as component inventory, finished goods and capital assets at third-party manufacturing facilities. Tangible property at each location is subject to risk of fire, earthquake, flood, and other natural acts of God. In the event of such acts, there could be delays in production and shipments of product due to both the loss of inventory and/or capacity to produce.

19. *Legal Risks*
In common with other companies, CSI is subject to legal risks related to operations, contracts, relationships and otherwise under which we may be served with legal claims. Whether or not the claims are legally valid, such claims may result in legal fees, damages, settlement costs and other costs as well as significant time and distraction of Management and employees.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2006, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company, including its subsidiaries, is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

In the fourth quarter of 2006, the Company implemented the second phase of a new ERP system, including the manufacturing resources planning ("MRP") component of the system. The implementation of this phase included revisions to many Company processes related primarily to purchasing, inventory control and manufacturing activities. As a result of the broad impact of this system implementation, the Company believes that these changes have materially affected the Company's internal controls over financial reporting.

We have assessed the design of our internal controls over financial reporting and during this process, we identified certain weaknesses in internal controls over financial reporting which are set out below. The weaknesses in the Company's internal controls over financial reporting discussed below result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of material misstatement, as described more fully below, however, there can be no assurance that the risk can be reduced to less than a remote likelihood of a material misstatement.

Limited Number of Staff – Common with many small companies, internal control deficiencies have been identified within the Company's accounting and finance department as a result of a limited number of staff. Two deficiencies were identified:

1. the Company does not have the personnel with all the technical knowledge to identify and address the complex and non-routine transactions that may arise; and

2. certain duties were not properly segregated due to the limited number of staff.

Management has implemented processes to mitigate the risks arising from these weaknesses. Material, complex and non-routine transactions are overseen by members of the senior management team and third-party expert advisors are consulted as needed in connection with the accounting and other implications. Detailed working papers are prepared and regularly reviewed by accounting management. Management reporting is prepared and regularly reviewed by the senior management team. On a quarterly basis, consolidated financial statements are reviewed by the Chief Executive Officer, Chief Financial Officer and the Audit Committee of the Board of Directors. In addition, the quarterly financial statements are reviewed by the Company's external auditor.

Management plans to implement further procedures during 2007 to address or mitigate the risks associated with the weaknesses identified. The Company plans to transfer certain responsibilities from staff with incompatible functions to staff who do not have incompatible functions. As the Company realizes future growth, it plans to expand the technical competence of the individuals involved in the accounting and finance department.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of CSI Wireless Inc. is responsible for the preparation and the presentation of the consolidated financial statements and related information published in this annual report. These statements were prepared in accordance with generally accepted accounting principles in Canada.

The preparation of the financial information necessarily requires the use of some estimates and judgements, such as selection and application of accounting principles appropriate to the circumstances and with due consideration to materiality. Where appropriate, management seeks and receives guidance in these matters from external legal, accounting and other advisors.

To ensure the reliability of the financial statements, management relies on the Company's system of internal controls. The accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

Management continuously monitors and adjusts the Company's internal controls and management information systems to accommodate a changing environment while ensuring financial integrity.

Management also recognizes its responsibility for ensuring that the Company, at all times, conducts its affairs in an ethical manner, conforming to all applicable laws and regulations, and in accordance with the highest standards of personal and corporate conduct.

Cameron Olson
Chief Financial Officer
March 2, 2007

Steven Koles
President & Chief Executive Officer
March 2, 2007

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of CSI Wireless Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 2, 2007

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Cash	$ 11,160,405	$ 12,595,354
Accounts receivable	4,995,204	3,400,719
Deferred commissions	111,619	–
Inventories	11,479,139	11,030,410
Prepaid expenses and deposits	550,530	550,621
Current assets of discontinued operations (note 11)	1,360,735	11,045,664
	29,657,632	38,622,768
Deferred commissions	246,414	24,472
Property and equipment (note 3)	8,507,990	6,189,739
Intangible assets (note 4)	4,332,591	4,727,733
Goodwill	22,961,432	22,394,799
Assets of discontinued operations (note 11)	116,380	18,229,059
	$ 65,822,439	$ 90,188,570
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,785,501	$ 2,999,227
Deferred revenue	773,527	–
Current portion of long-term debt (note 5)	300,517	483,134
Current portion of capital leases (note 6)	291,057	284,922
Current liabilities of discontinued operations (note 11)	974,505	10,969,890
	8,125,107	14,737,173
Deferred revenue	1,672,116	222,413
Long-term debt (note 5)	–	300,672
Capital lease obligations (note 6)	101,714	408,411
Shareholders' equity:		
Share capital (note 7)	104,013,743	103,463,383
Contributed surplus (note 8)	2,776,468	2,036,664
Deficit	(50,866,709)	(30,980,146)
	55,923,502	74,519,901
Commitments (note 13)		
Contingencies (note 15)		
	$ 65,822,439	$ 90,188,570

See accompanying notes to consolidated financial statements.

Approved by the Board:

Paul Cataford
Director

Paul Camwell
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 2006 and 2005

	2006	2005
Sales	$ 45,908,060	$ 32,676,705
Cost of sales	27,390,609	19,492,114
	18,517,451	13,184,591
Expenses:		
Research and development	4,741,323	3,949,497
Sales and marketing	9,305,319	5,831,777
General and administrative	5,929,584	5,268,163
Stock-based compensation	757,142	768,871
Amortization	2,509,013	1,854,036
	23,242,381	17,672,344
Loss before undernoted items	(4,724,930)	(4,487,753)
Gain on sale of marketable securities	(1,049,976)	–
Foreign exchange loss	642,856	789,147
Interest income	(220,984)	(139,272)
Restructuring costs	1,043,000	–
Loss from continuing operations	(5,139,826)	(5,137,628)
Loss from discontinued operations (note11)	(14,746,737)	(6,899,860)
Net loss	(19,886,563)	(12,037,488)
Deficit, beginning of year	(30,980,146)	(18,942,658)
Deficit, end of year	$ (50,866,709)	$ (30,980,146)
Loss per common share from continuing operations:		
Basic and diluted	$ (0.11)	$ (0.12)
Net loss per common share:		
Basic and diluted	$ (0.43)	$ (0.29)
Weighted average shares outstanding:		
Basic and diluted	46,023,887	41,510,451

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005

	2006	2005
Cash flows from (used in) operating activities:		
Loss from continuing operations	$ (5,139,826)	$ (5,137,628)
Items not involving cash:		
Amortization	2,509,013	1,854,036
Stock-based compensation	757,142	768,871
Unrealized foreign exchange gain	25,116	(142,459)
Gain on sale of marketable securities	(1,049,976)	–
Cash used in continuing operations	(2,898,531)	(2,657,180)
Change in non-cash operating working capital:		
Accounts receivable	(1,582,795)	(750,555)
Inventories	(321,448)	4,588,763
Prepaid expenses and deposits	91	(17,502)
Deferred commissions	(333,561)	(24,472)
Accounts payable and accrued liabilities	2,657,714	(1,079,170)
Deferred revenue	2,223,230	222,413
	(255,300)	282,297
Cash used in discontinued operations (note 11)	(5,263,760)	(2,690,846)
	(5,519,060)	(2,408,549)
Cash flows from (used in) financing activities:		
Long-term debt	(508,406)	(407,624)
Capital leases	(300,562)	(210,434)
Issue of share capital, net of share issue costs	414,051	22,318,459
Cash used in discontinued operations (note 11)	(346,812)	(1,513,344)
	(741,729)	20,187,057
Cash flows from (used in) investing activities:		
Purchase of property and equipment	(4,059,272)	(1,447,738)
Proceeds from the sale of marketable securities	7,209,670	–
Business acquisition, net	(959,303)	–
Repayment of note payable and transaction costs (note 2(b))	–	(12,754,510)
Cash from (used in) discontinued operations (note 11)	2,634,745	(1,234,346)
	4,825,840	(15,436,594)
Increase (decrease) in cash position	(1,434,949)	2,341,914
Cash, beginning of year	12,595,354	10,253,440
Cash, end of year	$ 11,160,405	$ 12,595,354
Supplemental disclosure:		
Interest paid	$ 88,143	$ 141,766
Interest received	$ 343,756	$ 266,652

See accompanying notes to consolidated financial statements.

CSI Wireless Inc. (the "Company") is incorporated under the laws of the Province of Alberta. The Company is actively involved in the design, manufacture and marketing of precision Global Positioning System ("GPS") products and technologies.

1. Significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

(b) Revenue recognition:

The Company generates revenue from the sale of equipment and from extended service programs.

Revenues from the sale of equipment are recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Accruals for warranty costs, sales returns and other allowances at the time of shipment are based upon contract terms and anticipated claims.

Revenues from the sale of extended service programs are recorded as deferred revenue at the time that payment is received and are recognized on a pro-rata basis over the extended service period. Commissions paid on extended service program revenues are recorded as deferred charges at the time they are paid and are expensed on a pro-rata basis over the extended service period.

(c) Inventories:

Inventories are valued at the lower of cost and market. Cost is determined on an average-cost basis and market is determined at net realizable value for finished goods and work in process and replacement cost for component parts.

(d) Property and equipment:

Property and equipment is recorded at cost. Amortization is provided at the following annual rates:

Assets	Method	Rate
Computer equipment and software	declining balance	30%
Office and production equipment	declining balance	20% – 30%
Licenses and other assets	straight-line	2 – 10 years
Leasehold improvements	straight-line	10 – 20 years

Amortization is charged from the date of acquisition of an asset.

(e) Research and development costs:

Ongoing research and development costs, net of related government incentives and grants, are charged to earnings in the current period. No government incentives or grants relating to research and development activities were received in the year.

(f) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the business combination.

1. Significant accounting policies (continued):

(f) Goodwill (continued):

Goodwill is not amortized, but is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. As a result of the current year's assessment no impairment loss has been recognized on the goodwill recorded in continuing operations.

(g) Intangible assets:

Intangible assets are carried at cost, with the carrying value of these assets being assessed whenever an event or changes in circumstances indicate that their carrying amount may not be recoverable.

Amortization is provided at the following annual rates:

Assets	Method	Rate
Trademarks and brands	straight-line	20 years
Marketing and distribution assets	straight-line	5 years
Technology	straight-line	5 years

(h) Per share amounts:

The calculation of basic loss per common share is based on the weighted average number of common shares outstanding. Diluted earnings per share is calculated using the treasury stock method.

(i) Foreign currency translation:

Foreign currency balances of the Company's foreign subsidiaries, which are considered to be integrated, are translated on the following basis:

- monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates.
- non-monetary assets, liabilities and related depreciation expense are translated at historical rates.
- sales and expenses are translated at the average rate of exchange during the month in which they are recognized.

Any resulting foreign exchange gains and losses are included in earnings.

(j) Stock-based compensation plan:

The Company applies the fair value method to all stock-based payments and awards. Under the fair value method, the Company calculates the fair value of stock option grants or direct awards of stock and records that fair value as compensation expense over the vesting period of those grants and awards, and an equal amount is recorded in contributed surplus. Upon exercise of stock options, the amount of compensation expense previously recorded in contributed surplus is moved to share capital.

(k) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis. Future income tax assets and future income tax liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to settle. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment.

To the extent that future income tax assets are not considered more likely than not to be realized, a valuation allowance is provided.

(l) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Business acquisitions:

(a) Del Norte Technology Inc.:

On January 19, 2006, the Company, through its wholly-owned subsidiary Hemisphere GPS LLC, completed the acquisition of the business assets of Del Norte Technology, Inc. The acquisition has been accounted for using the purchase method and the allocation of the purchase price based on fair values was as follows:

Cash	$	157,659
Current assets		148,379
Property and equipment		95,146
Intangible assets		277,704
Goodwill		566,634
Current liabilities		(128,560)
	$	1,116,962

Consideration paid consisted of:		
Cash	$	1,087,674
Transaction costs		29,288
	$	1,116,962

2. Business acquisitions (continued):

(b) Outback Business:

On April 8, 2005, the Company, through its wholly-owned subsidiary Hemisphere GPS LLC (previously named Satloc LLC), completed the acquisition of certain sales, marketing and distribution assets relating to the Outback® line of products (the "Outback Business") from RHS, Inc. ("RHS"). The acquisition has been accounted for using the purchase method and the allocation of the purchase price based on fair values was as follows:

Current assets	$ 9,728,864
Property and equipment	1,962,990
Intangible assets	5,216,796
Goodwill	18,003,957
Current liabilities	(7,134,735)
Long-term debt	(1,333,889)
	$ 26,443,983

Consideration paid consisted of:

Note payable	$ 11,909,061
Common shares issued	13,689,473
Transaction costs	845,449
	$ 26,443,983

The note payable was settled on April 20, 2005.

The 4,400,000 common shares issued are held in escrow with 1,000,000 released on the first anniversary of the closing date, 1,000,000 to be released on the second anniversary of the closing date and 1,950,000 to be released on the third anniversary of the closing date. The remaining 450,000 shares are subject to holdback against certain claims that may arise for which the Company has been indemnified, and will remain in escrow until the earlier of the settlement of the associated claims or ten years after closing of the acquisition.

Under Performance Warrants issued to RHS, an additional 2,100,000 common shares may be issued to RHS. The Performance Warrants entitle the holder to acquire, for no additional consideration, 2,100,000 common shares of the Company if the Outback Business achieves defined growth and profitability targets in fiscal 2005, 2006 and 2007. If the common shares attributable to these Performance Warrants become issuable, they will be accounted for as additional goodwill on the acquisition. No amounts have been recorded in these financial statements related to the Performance Warrants as the required growth and profitability targets for 2006 and 2005 were not met. The growth and profitability targets are stated on an annual and cumulative basis such that all of the common shares remain issuable if the cumulative targets are met, despite a shortfall relative to the annual targets in any year.

3. Property and equipment:

December 31, 2006	Cost	Accumulated amortization	Net book value
Leasehold improvements	$ 3,275,241	$ 277,020	$ 2,998,221
Computer equipment and software	5,336,023	2,656,675	2,679,348
Office and production equipment	5,649,069	3,115,098	2,533,971
Licenses and other assets	514,899	218,449	296,450
	$ 14,775,232	$ 6,267,242	$ 8,507,990

December 31, 2005	Cost	Accumulated amortization	Net book value
Leasehold improvements	$ 474,878	$ 145,347	$ 329,531
Computer equipment and software	4,544,616	1,824,227	2,720,389
Office and production equipment	5,351,377	2,555,128	2,796,249
Licenses and other assets	920,145	576,575	343,570
	$ 11,291,016	$ 5,101,277	$ 6,189,739

Included in property and equipment is equipment under capital lease with a cost of $1,436,589 (2005 - $1,516,583), accumulated amortization of $921,219 (2005 - $693,599) and a net book value of $515,370 (2005 - $822,984).

4. Intangible assets:

December 31, 2006	Cost	Accumulated amortization	Net book value
Trademarks and brands	$ 2,484,224	$ 212,444	$ 2,271,780
Marketing and distribution assets	2,395,044	812,032	1,583,012
Technology	703,420	225,621	477,799
	$ 5,582,688	$ 1,250,097	$ 4,332,591

December 31, 2005	Cost	Accumulated amortization	Net book value
Trademarks and brands	$ 2,387,970	$ 85,223	$ 2,302,747
Marketing and distribution assets	2,253,264	321,676	1,931,588
Technology	575,562	82,164	493,398
	$ 5,216,796	$ 489,063	$ 4,727,733

5. Long-term debt:

	2006	2005
Term debt, with a principal of US$257,888, repayable in monthly installments of US$37,465 with interest calculated at 6.75%, maturing August 2007 and secured by specific computer equipment and software	$ 300,517	$ 783,806
Less: current portion	300,517	483,134
	$ –	$ 300,672

6. Capital lease obligations:

Estimated lease payments are as follows:

		2006		2005
2006	$	–	$	319,625
2007		307,029		308,016
2008		103,651		120,924
Total future minimum capital lease payments		410,680		748,565
Less: interest portion		17,909		55,232
Net minimum lease payments		392,771		693,333
Less: current portion		291,057		284,922
	$	101,714	$	408,411

7. Share capital:

(a) Authorized:

Unlimited number of common shares

(b) Issued:

	Number of Shares		Amount
Balance, December 31, 2004	33,441,152	$	67,273,700
Issued on exercise of stock options	1,070,579		2,385,601
Issued on private placement	4,000,000		15,000,000
Exercise of share purchase warrants	2,641,000		5,282,000
Exercise of agents warrants	53,718		107,436
Exercise of bankers warrants	250,000		625,000
Issued on business acquisition (note 2(b))	4,400,000		13,689,473
Share issue costs	–		(1,081,578)
Transfer from contributed surplus on exercise of stock options	–		181,751
Balance, December 31, 2005	45,856,449		103,463,383
Issued on exercise of stock options	269,167		429,554
Share issue costs	–		(15,503)
Transfer from contributed surplus on exercise of stock options	–		136,309
Balance, December 31, 2006	46,125,616	$	104,013,743

(c) Stock options:

The Company has a stock option plan, whereby options to purchase common shares may be issued to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. Stock options granted vest over a period of two to four years and expire at various dates through 2011.

At December 31, 2006, there were 3,002,631 (2005 - 3,176,165) stock options outstanding. In aggregate, the Company's shareholders have approved the issuance of total stock options of 3,642,889, representing 5,600,000 reserved for issuance, net of stock options exercised of 1,957,111.

(c) Stock options (continued):

Changes in the number of options, with their weighted average exercise prices are summarized below:

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Total options outstanding, beginning of year	3,176,165	$ 2.35	3,783,496	$ 2.22
Granted	1,067,500	1.69	670,500	3.01
Exercised	(269,167)	1.60	(1,070,579)	2.23
Cancelled/expired	(971,867)	2.39	(207,252)	2.67
Stock options outstanding, end of year	3,002,631	$ 2.17	3,176,165	$ 2.35
Exercisable at year end	1,873,961	$ 2.23	1,943,998	$ 2.14

	Options outstanding			Options exercisable	
Range of exercise prices outstanding	Number outstanding at December 31, 2006	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at December 31, 2005	Weighted average exercise price
$1.14 – 2.00	1,862,181	42	$ 1.68	1,009,837	$ 1.67
2.01 – 3.00	759,950	23	2.66	652,607	2.66
3.01 – 3.78	380,500	40	3.62	211,517	3.62
$ 1.14 – 3.78	3,002,631	37	$ 2.17	1,873,961	$ 2.23

(d) The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: zero dividend yield; weighted average volatility of 77%; risk-free rate of 4% to 5%; and expected lives of 2.5 to 4 years. The weighted average fair value of options granted during the year was $0.88 (2005 - $1.03) per option. The Company has recorded $876,113 (2005 - $1,005,237) as compensation expense, including the amount that is attributable to, and included in, the loss from discontinued operations.

8. Contributed surplus:

Balance, December 31, 2004	$ 1,176,994
Stock-based compensation expense	1,005,237
Stock options issued on acquisition	36,184
Stock options exercised	(181,751)
Balance, December 31, 2005	2,036,664
Stock-based compensation expense	876,113
Stock options exercised	(136,309)
Balance, December 31, 2006	$ 2,776,468

9. Income taxes:

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial income tax rate of 32.49% (2005 – 33.62%) to earnings before income tax as follows:

	2006	2005
Expected income tax (recovery)	$ (1,670,000)	$ (1,805,000)
Increase (decrease) resulting from:		
Unrecognized future tax assets	3,995,000	3,850,000
Permanent differences	450,000	309,000
Impact of future enacted tax rates and exchange rate	295,000	240,000
Impact of foreign jurisdiction tax rates	(878,000)	(655,000)
Tax recovery of loss on discontinued operations	(2,192,000)	(1,939,000)
Income tax expense	$ –	$ –

The components of the Company's net future income tax assets, no portion of which has been recorded in these financial statements, are as follows:

	Asset (Liability)		
December 31, 2006	Canada	United States	Total
Net operating losses	$ 313,551	$ 14,975,785	$ 15,289,336
Research and development tax pools	826,456	–	826,456
Property and equipment	(134,434)	(137,970)	(272,404)
Share issue costs	386,814	–	386,814
Goodwill	–	(1,271,601)	(1,271,601)
Reserves	108,382	–	108,382
Inventory	–	41,760	41,760
Restructuring costs	–	19,500	19,500
Unrealized foreign exchange loss	–	140,986	140,986
	$ 1,500,769	$ 13,768,460	$ 15,269,229

	Asset (Liability)		
December 31, 2005	Canada	United States	Total
Net operating losses	$ 808,000	$ 9,529,000	$ 10,337,000
Research and development tax pools	761,000	–	761,000
Property and equipment	(141,000)	(539,000)	(680,000)
Share issue costs	677,000	–	677,000
Inventory	–	46,000	46,000
Goodwill	–	(199,000)	(199,000)
Reserves	122,000	–	122,000
Restructuring costs	–	42,000	42,000
Unrealized foreign exchange loss	–	209,000	209,000
	$ 2,227,000	$ 9,088,000	$ 11,315,000

The net operating loss carry-forwards reflected above expire as follows:

	Net operating losses
United States:	
2020	$ 4,659,000
2021	8,334,000
2022 and beyond	24,407,000
	$ 37,400,000
Canada:	
2014	412,000
2015	669,000
	$ 1,081,000

The Company has unrecognized tax credits totaling $2,400,000 in Canada, and $2,900,000 in the United States relating to its research and development activities.

10. Segmented information:

Assets and sales by geographic segment:

	Assets		Sales	
	2006	2005	2006	2005
United States	$ 45,476,000	$ 72,988,000	$ 25,146,000	$ 17,849,000
Canada	20,346,000	17,201,000	11,900,000	6,093,000
Europe	–	–	3,687,000	3,288,000
Other	–	–	5,175,000	5,447,000

Sales are attributed to geographic segments based on the location of the customer. The goodwill balance is entirely attributable to the Company's US activities. The net book value of property and equipment located in Canada $3,178,075 (2005 - $3,678,207) and in the US is $5,329,915 (2005 - $2,511,532).

11. Discontinued operations:

In the fourth quarter of 2005, the Company commenced activities to restructure and dispose of its Telematics product line, which was a component of the Wireless Business Unit. On April 24, 2006, the Company announced it had signed a definitive agreement to sell its Fixed Wireless Telephone product line to Telular Corporation. The transaction closed on May 8, 2006. On November 26, 2006, the Company signed a definitive agreement to sell its Asset-Link Telematics product line to CHI-Agra Products Inc. The transaction closed on December 18, 2006. On July 28, 2006, the Company announced that it had signed an agreement to sell the Location Tag Telematics product line to Trace Technologies, LLC. This transaction has not closed due to circumstances impacting Trace and which are out of the control of the Company. It is uncertain as to whether this transaction will close.

As a result of the above circumstances, the Telematics and the Fixed Wireless Telephone product lines of the Wireless Business Unit have been classified as discontinued operations in these financial statements, with the comparative information being restated to conform to this disclosure.

As a result of an assessment of the fair value of the Wireless Business Unit compared to the anticipated net proceeds of sale, an impairment of goodwill attributed to the discontinued operations was recorded during the first quarter of 2006 totaling $8,000,000. There is no goodwill carried on the balance sheet relating to the discontinued operations.

11. Discontinued operations (continued):

There are no continuing operational activities associated with the discontinued operations following the divestments of the Asset-Link and Fixed Wireless Telephone product lines, however, Management expects that there will be continuing cash flows related to:

(a) settlement of the remaining assets and liabilities of the discontinued operations, which are expected to be completed during 2007;

(b) the conclusion or termination of the sale of the Location Tag Telematics product line, which is expected to be completed during 2007; and

(c) the conclusion of legal matters associated with the discontinued operations, the timing of which is not reasonably determinable.

Divestment of the Fixed Wireless Telephone product line - Proceeds on the disposition of the Fixed Wireless Telephone product line at the time of closing were as follows:

Cash	$	3,179,005
Accounts receivable		577,102
1,931,745 common shares of Telular Corporation		6,159,692
Less: disposition costs		(431,630)
	$	9,484,169

In addition, the Company received a cash payment of $178,000 for working capital items acquired by Telular Corporation.

The agreement for the sale of the Fixed Wireless Telephone product line included the provision that the Company may earn additional common shares of Telular Corporation based on the revenues earned by Telular Corporation on GSM and TDMA fixed wireless telephone sales in specific markets during defined periods which will end no later than June 30, 2007. The number of contingently issuable shares was fixed based on the average closing share price for the 25 days prior to the signing of the definitive agreement. The TDMA earnout provision was based on certain TDMA fixed wireless telephone sales during the period April 1 to December 31, 2006. Under this provision, the Company has earned 150,990 additional common shares of Telular Corporation, of a total available of 515,132. These additional proceeds, valued at $639,263, have been recorded as additional proceeds on the sale of the product line. The GSM earnout provision is based on certain GSM fixed wireless telephone sales during the period July 1, 2006 to June 30, 2007 and provides the Company the opportunity to earn up to 643,915 additional common shares.

Divestment of the Asset-Link product line - Proceeds on the disposition of the Asset-Link product line at the time of closing were as follows:

Cash	$	11,530
Promissory Note		103,770
Less: disposition costs		(46,120)
	$	69,180

Under the terms of the divestment, the Company may earn up to US$250,000 based on sales of Asset-Link products by the purchaser.

The results of the discontinued operations for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Sales	$ 16,598,370	$ 46,525,449
Cost of sales	14,295,672	39,987,345
	2,302,698	6,538,104
Expenses:		
Research and development	2,375,933	6,560,741
Sales and marketing	1,111,372	2,671,856
General and administrative	4,316,597	1,662,642
Stock-based compensation	118,971	236,366
Amortization	464,871	1,411,086
	8,387,744	12,542,691
Loss before undernoted items	$ (6,085,046)	$ (6,004,587)
Gain on the sale of product lines	(383,398)	–
Severance and wind-down costs	1,071,000	–
Interest income	(25,911)	(4,727)
Goodwill impairment	8,000,000	900,000
Loss from discontinued operations	$ (14,746,737)	$ (6,899,860)

Assets and liabilities presented in the consolidated balance sheet are recorded at fair value and include the following assets and liabilities of discontinued operations:

	2006	2005
Current Assets	$ 1,360,735	$ 11,045,664
Assets:		
Property and equipment	116,380	4,701,725
Goodwill	–	13,527,334
	116,380	18,229,059
Current liabilities	(974,505)	(10,969,890)
	$ 502,610	$ 18,304,833

11. Discontinued operations (continued):

The cash flows from discontinued operations for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Cash flows from (used in) operating activities:		
Net loss from discontinued operations	$(14,746,737)	$ (6,899,860)
Items not involving cash:		
Amortization	464,871	1,411,086
Stock-based compensation	118,971	236,366
Goodwill impairment	8,000,000	900,000
Gain on sale of product lines	(383,398)	–
	(6,546,293)	(4,352,408)
Change in non-cash operating working capital		
Accounts receivable	10,073,958	(442,525)
Inventories	606,411	642,712
Prepaid expenses and deposits	140,984	(14,945)
Accounts payable	(9,538,820)	1,476,320
	(5,263,760)	(2,690,846)
Cash flows used in financing activities:		
Capital lease obligations	(346,812)	(1,513,344)
Cash flows from (used in) investing activities:		
Property and equipment	(112,630)	(1,234,346)
Proceeds on sale of product lines, net	2,747,375	–
	2,634,745	(1,234,346)
	$ (2,975,827)	$ (5,438,536)

12. Financial instruments:

The carrying values of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments. All long-term debt and capital lease obligations with variable interest rates are assumed to be at fair value and therefore are not revalued.

The nature of these instruments and the Company's operations expose the Company to the following risks:

(a) Credit risk:

Credit risk reflects the risk the Company may be unable to recover accounts receivable. The Company employs established credit approval and monitoring practices to mitigate this risk.

(b) Interest risk:

The Company is exposed to interest rate risk to the extent that it may draw on its operating line of credit or other forms of debt which calculate interest as a function of current lending rates.

(c) Foreign exchange risk:

The Company is exposed to foreign exchange risk in that the majority of its revenues and a significant portion of its expenses are denominated in US dollars. In addition, the Company is exposed to foreign exchange risk relating to components of working capital that are denominated in US dollars.

13. Commitments:

The Company is committed to annual minimum operating lease payments, excluding tenant-operating costs, of:

2007	$	970,846
2008		652,968
2009		595,437
2010		539,760
2011		333,662

Effective July 1, 2006, the Company entered into a five year lease for a building in Hiawatha, Kansas that is being used as the distribution centre for the Company's ground agriculture product line. The building is leased from the City of Hiawatha for annual rent of US$120,000. If the Company meets certain headcount growth thresholds over the term of the lease, the lease payments are forgiven. For the period July 1 to December 31, 2006, the Company has met the growth thresholds, and the lease payments were forgiven.

If the Company has met the growth thresholds at the end of the lease, the Company will have the option to purchase the building for $1.00. If the Company has not met the thresholds, then the Company will have the option to purchase the building for a range of amounts up to the fair market value of the building at that time. It is uncertain as to whether the growth thresholds will be met at this point in time, accordingly, the Company has accounted for this as an operating lease at December 31, 2006.

14. Related party transactions:

In connection with the acquisition of the Outback Business (note 2(b)), the Company has ongoing transactions with the vendor, RHS, which is a company wholly-owned by a director and former member of the Company's senior management team.

(a) Included in sales is $234,000 (2005 - $571,000) for sales of Outback products to RHS.

(b) At the time of the acquisition, the Company entered into a services agreement with RHS whereby certain of the Company's employees spend a defined percentage of their time providing management and administrative services to RHS and certain RHS employees perform administrative duties for the Company. Included in expenses is an expense recovery of $768,000 (2005 - $475,000) for amounts charged to RHS under this agreement and $129,000 (2005 - $39,000) of expense related to services provided to the Company by RHS. At December 31, 2006, this provision of services under this agreement has largely concluded, and it is not anticipated that significant amounts will be charged by either the Company or RHS under this agreement in future periods.

(c) At the time of the acquisition, the Company entered into a lease agreement for the use of an office building, furniture and equipment owned by RHS in Hiawatha, Kansas. For the current year, $123,000 (2005 - $80,000) in lease payments are included in expenses. This lease was terminated in December 2006 when the Company's Hiawatha operations moved into a building leased from the City of Hiawatha.

(d) Following termination of the RHS building lease, the Company purchased office equipment, furniture and certain other fixed assets from RHS totaling approximately $150,000.

(e) At the time of the acquisition, the Company entered into a charter services agreement for the charter use of an airplane owned by RHS, and managed by a third party. During 2006, charter fees of $74,000 (2005 - $261,000) were paid to the third-party management company for use of the airplane. The charter services agreement was terminated in 2006.

(f) Under the Outback business aquisition agreement, RHS has indemnified the Company for a share of the costs associated with certain claims against the Company. Included in accounts receivable at December 31, 2006 is $411,000 owing from RHS for its share of costs incurred to date that are subject to this indemnity. The payment for these costs is not due until the related claim is settled or terminated.

14. Related party transactions (continued):

(g) Accounts receivable at December 31, 2006 includes $63,000 (2005 - $708,000) in amounts due from RHS for product sales and administrative service fees, excluding the amount owing as described in note 14(f). Included in accounts payable is $236,000 (2005 - $nil) due to RHS for general and administrative charges and the purchase of fixed assets.

All transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Contingencies:

Legal matters:

The Company is subject to the following claims and lawsuits, the outcome of which are not determinable:

(i) During 2006, the Company was served with a statement of claim from a company who was a former customer of the Company's Telematics product line, which is disclosed as discontinued operations in these financial statements. The Company will vigorously defend its position and will issue a counterclaim against the company. Although the Company believes the lawsuit claiming damages of $35 million is without merit, the loss, if any, is not determinable at this time.

(ii) The Company is the defendant in a lawsuit in which the plaintiff claims that certain of the Company's GPS products infringe a patent held by them. The Company does not believe that its products infringe upon the referenced patent and will vigorously defend its position.

The Company is subject to claims and contingencies related to lawsuits and other matters arising in the normal course of operations. Management believes the ultimate liability, if any, arising from such claims or contingencies, is not likely to have a material adverse effect on the Company's results of operations or financial condition.

16. Comparative figures:

Certain other comparative information has been reclassified to conform with the current year's presentation.

CORPORATE INFORMATION

• Directors

Non-Independent

Richard Heiniger(2)
President,
RHS, Inc.

Independent

Michael Lang(1)
Chairman
StoneBridge Merchant Capital Corp.

Barry Batcheller(4)
President & CEO
Appareo Systems

Paul Camwell(3)(5)(6)
Vice President & CTO
Extreme Engineering Ltd.

Paul Cataford(3)(7)
President & CEO
University Technologies International Inc.

John Tye III(3)(5)
Chairman
Bigham Brothers Inc.

Howard Yenke(4)(8)
Retired Executive

(1) CSI Wireless Board Chairman
(2) Vice Chairman
(3) Audit Committee
(4) Compensation Committee
(5) Corporate Governance Committee
(6) Corporate Governance Committee Chairman
(7) Audit Committee Chairman
(8) Compensation Committee Chairman

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Cameron Olson
Sr. Vice President & Chief Financial Officer

Dean Ryerson
Sr. Vice President & Chief Operating Officer Agriculture

Bill Burdick
General Manager, Ground Agriculture

Phil Gabriel
General Manager, Precision Products

Chad Lind
General Manager, Air

Michael Pratt
Vice President, Finance & Administration

Lisa Smith
Vice President, Operations

• Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

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